

## Message Text

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21-12

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FM SECSTATE WASHDC

TO USMISSION OECD PARIS

C O N F I D E N T I A L STATE 227496

LIMDIS

E.O. 11652: DECLASSIFY DEC. 31, 1979

TAGS: ENRG

SUBJECT: CURRENT OIL DEVELOPMENTS

FOR BENNSKY

1. YOU MAY WISH TO DRAW ON FOLLOWING MATERIAL AS APPROPRIATE, IN PREPARATION OF ANY STATEMENTS REQUIRED FOR USE AT HLG MEETING NOVEMBER 19.
2. THE 25 PERCENT ARAB OIL CUTBACK HAS ALREADY REDUCED WORLD OIL AVAILABILITY BY OVER 5 MILLION B/D, AND IF ANOTHER 5 PERCENT REDUCTION COMES INTO EFFECT IN DECEMBER, THE DECREASE WILL EXCEED 6 MILLION B/D. THE UNITED STATES ALONG WITH THE NETHERLANDS AND PORTUGAL ARE TOTALLY EMBARGOED.
3. WESTERN EUROPE IS DIVIDED BY MANY ARAB PRODUCERS INTO

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THE "PREFERRED" COUNTRIES (UK, FRANCE, SPAIN), WHO WILL

BE PERMITTED TO RECEIVE ARAB OIL AT LEVELS EQUAL TO THEIR ARAB OIL PURCHASES DURING THE FIRST NINE MONTHS OF 1973. THE TOTALLY BOYCOTTED (THE NETHERLANDS AND PORTUGAL) AND THE "NON-PREFERRED" NATIONS (ALL THE REST). THE LATTER CATEGORY WILL HAVE TO SHARE PRO RATA ANY OIL REMAINING FROM REDUCED ARAB PRODUCTION AFTER THE PREFERRED CUSTOMERS HAVE BEEN SATISFIED. WE ESTIMATE THAT THE OVERALL WEST EUROPEAN OIL DEFICIT WILL

EQUAL ABOUT 3 MILLION B/D OR 15 PERCENT OF CONSUMPTION BY MID-WINTER. THE NETHERLANDS, AS A TOTALLY BOYCOTTED COUNTRY AND WEST GERMANY, WHICH RECEIVES A SUBSTANTIAL PORTION OF ITS OIL THROUGH ROTTERDAM, WILL BE MOST SERIOUSLY AFFECTED. WE UNDERSTAND THAT BOYCOTT WILL MEAN THAT DUTCH DOMESTIC CONSUMPTION AND OIL REEXPORTS WILL BOTH BE CUT BACK PRO RATA. HOWEVER A FAVORABLE STOCK POSITION WILL PERMIT DOMESTIC CONSUMPTION TO BE MAINTAINED AT '72 LEVELS UNTIL MARCH '74.

4. JAPAN, AS A "NON-PREFERRED" NATION WILL LOSE ABOUT 500,000 B/D OR 9 PERCENT OF CONSUMPTION AT FIRST; HOWEVER BY MID-WINTER THIS FIGURE IS LIKELY TO APPROACH 15 PERCENT. JAPAN'S POSITION IS AMELIORATED TO SOME EXTENT BY A FAVORABLE (50 DAY) STOCK SITUATION. THIS HOWEVER MAY NOT PREVENT REGIONAL AND SECTORAL SHORTFALLS AND DISLOCATIONS. FYI: JAPANESE ESTIMATES OF LOSS IN OIL ARE HIGHER THAN OURS. END FYI. JAPANESE ARE KNOWN TO BE CONCERNED THAT MAJOR U.S. OIL COMPANIES, WHO SUPPLY MOST OF JAPAN'S OIL, ARE CONTEMPLATING LARGE CUTS TO JAPAN IN ORDER TO BOOST SUPPLY TO OTHER MARKETS SUCH AS U.S.

5. THE EFFECT OF CUTBACKS ON THE LDCS AS A WHOLE IS DIFFICULT TO ESTIMATE BECAUSE THEY ARE DIVIDED BETWEEN PREFERRED AND NON-PREFERRED. WE KNOW HOWEVER THAT SOME, INCLUDING THE PHILIPPINES, ARE BEGINNING TO EXPERIENCE SUPPLY DIFFICULTIES; IN THE LONGER RUN HOWEVER IT WILL PROBABLY BE PRICE RATHER THAN SUPPLY CONSTRAINTS THAT WILL PROVE MOST HARMFUL TO THE LDC ENERGY IMPORT AND

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USE SITUATION.

6. THE UNITED STATES IS UNDER TOTAL ARAB EMBARGO, AND THE RESULTING OIL IMPORT DEFICIT IS EXPECTED TO BE IN THE 2-3 MILLION B/D RANGE, OR 11-17 PERCENT OF CONSUMPTION. THIS SHORTFALL FIGURE INCLUDES THE DENIAL OF ALL "NORMAL" ARAB OIL IMPORTS, AND LOSS OF SUBSTANTIAL QUANTITIES OF HEATING OIL WHICH WE HAD

EXPECTED TO BE ABLE TO IMPORT FROM EUROPEAN REFINERIES OVER THE WINTER; IT HOWEVER EXCLUDES ADDITIONAL LOSSES OF ARAB OIL TO DOD OFFSHORE INSTALLATIONS (ESTIMATED AT 200-250,000 B/D). THERE IS ALSO A STRONG POSSIBILITY THAT US IMPORTERS WILL BE OUTBID FOR SOME QUANTITIES OF NON ARAB OIL WHICH UNDER NORMAL CIRCUMSTANCES WOULD HAVE REACHED THE UNITED STATES SPOT OIL MARKET.

7. US IS ALREADY IN EFFECT SHARING ITS OIL IMPORTS WITH WESTERN EUROPEAN COUNTRIES IN THAT THEY ARE NO

LONGER SHIPPING TO US 260,000 B/D OF PRODUCTS WE WOULD NORMALLY RECEIVE. THIS HAS SIGNIFICANTLY WORSENERED OUR OWN SUPPLY SHORTFALL.

8. UNITED STATES IS AS MUCH AND PROBABLY MORE DISADVANTAGED BY ARAB OIL BOYCOTT THAN ARE WEST EUROPEANS OR JAPANESE. OUR ESTIMATED MID-WINTER SHORTFALL WHICH LIKELY TO BE 17 PERCENT OR MORE OF CONSUMPTION COMPARES WITH THAT FORESEEN FOR WESTERN EUROPE AND JAPAN (BOTH ABOUT 15 PERCENT) EVEN EXCLUDING NEGATIVE EFFECT OF DOD AND SPOT MARKET LOSSES.

9. OF WEST EUROPEANS, THE DUTCH, WHO ARE UNDER TOTAL EMBARGO, AND THE WEST GERMANS ARE PROBABLY MOST SERIOUSLY HARMED. HOWEVER THE EUROPEANS APPEAR TO BE TAKING CARE OF THESE SHORTAGES THROUGH "QUIET" DIVERSIONS AND THEY SEEM TO PREFER IT THIS WAY FOR TIME BEING. (OECD 28914). SIMILARLY, PORTUGAL, WHICH IS ALSO UNDER EMBARGO, APPEARS TO BE ABLE TO MEET ANY DEFICIT BY EXERCISING ITS RIGHT TO CALL UPON GULF OIL CORPORATION'S PRODUCTION IN ITS AFRICAN COLONY CABINDA NEAR ANGOLA. WE HAVE NO REQUESTS FROM ANY GOVERNMENTS

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FOR SHARING OF OUR REDUCED SUPPLIES.

10. WE ARE IN DECISIVE STAGES OF PUSHING THROUGH EMERGENCY OIL SUPPLY LEGISLATION AND PROGRAM. IN THIS CONNECTION WE FACE SOME CONGRESSIONAL AND PUBLIC CRITICISM FOR EVEN SMALL AMOUNTS OIL EXPORTS AND POSSIBLE OTHER DIVERSIONS OF PETROLEUM.

11. USG WILL KEEP UNDER CONSTANT EXAMINATION IMPACT OF OIL CUTS ON CONSUMING COUNTRIES AND WILL BE GLAD TO MEET FREQUENTLY TO REVIEW SITUATION. KISSINGER

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